One Way Forward: Non-Traditional Accounting Disclosures in the 21st Century

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Abstract

Recent empirical studies (Deegan and Rankin, 1999; Deegan et al., 2000) have indicated that although many corporations have begun to respond to perceived demand for environmental disclosures in published accounts, their perspective of organisational legitimacy is a narrow view, in which information is targeted towards specific stakeholders and not to the general public.

This paper considers a range of models (variously called guidelines, standards and charters) which have been put forward by different organisations to aid the development of social and environmental disclosures. In all cases verification and attestation are part of the proposed regimen.

The question which the papers attempts to answer is whether any one of the models would be capable of rapid adoption as part of an expanded GAAP, should the professional accounting bodies think that this is desirable. The outcome of our deliberations is cautious support for the use of EMAS and ISO 14000 as the basis for a modified GAAP plus the further development of the GRI 2000 guidelines into a set of standards covering both social and environmental reporting.

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INTRODUCTION

Disclosures of non-traditional (normally social and environmental) information by corporations have increased quite markedly over the past few years (Gray et al., 1995; Mathews, 1997a). However, there is increasing evidence that a greater readiness to make disclosures may be motivated by an intention to moderate the perceptions of the corporation which are held by important groups within society; or even to control the messages received by the various stakeholders (Deegan and Rankin, 1999; Deegan et al., 2000). If that is indeed the case, and if it can be demonstrated that a very narrow view of organisational legitimacy is the driving force behind increased disclosures by corporations, then the usefulness and appropriateness of these disclosures will need to be re-examined. Other more structured approaches may need to be developed and authorised, including those providing for an audit or verification of the report.

This paper was initiated as a response to apparent current motivations towards voluntary non-traditional disclosures by corporations, and considers a range of alternative actions, which may be taken to re-establish a dynamic, broader, view of social and environmental accounting. It is argued that the initiative for change should not remain in the hands of the preparers of annual reports, to the exclusion of the needs of users, government and other parties. The two questions, which this paper addresses, are; (1) is there currently a structure for disclosure, which could be given authoritative support (however defined), without serious modification? And (2) if there is no such model at the time, are there suitable parts of two or more structures, which could be developed into a structure, and given authoritative support (however defined). The progress made by financial accounting in basing disclosures upon a conceptual framework, leading to audited, legally backed standards, provides a positive example for social and environmental accounting.

The paper is organised as follows. Following the introduction, there is an examination of legitimacy theory as the dominant motivation for increased disclosure. This leads to a discussion of alternative strategies aimed at increasing and widening the scope and range of disclosures within potential stakeholder groups, including; the Eco-Management and Audit Scheme (EMAS, 1995); the International Organization for Standardization (ISO 14000, 1996); the Social Accountability Standard (SA8000, 1998) issued by the Council on Economic Priorities Accreditation Agency (CEPAA); the 'Copenhagen Charter' (CC, 1999); the Institute of Social and Ethical Accountability 'AA1000' social accounting standard (ISEA, 1999); and the Global Reporting Initiative 'Sustainability Reporting Guidelines' (GRI, 2000). Two sections follow; one dealing with verification and audit, and the other devoted to an evaluation and synthesis of the various models. A final section contains concluding comments.

LEGITIMACY THEORY AS THE DOMINANT MOTIVATION FOR ADDITIONAL DISCLOSURES

A number of post 1992 studies have focused on the relationship between voluntary disclosures and the possible motivation underlying decisions to disclose environmental information. The majority of these studies appear to be from either North America or Australia. Two US studies (Patten, 1992; Blacconiere and Patten, 1994) considered the effects of the Exxon Valdez and Bhopal disasters on disclosures by the petroleum and chemical industries. Other studies (Gamble et al., 1995; Kreuze et al., 1996; and Fekrat et al., 1996) investigated the general quality of environmental disclosures in 10K and annual reports, finding that many corporations did not provide any discussion of corporate environmental philosophy or environmental disclosures.

Neu et al. (1998) studied Canadian public company annual reports in the mineral extraction, forestry, oil and gas, and chemical industries, between 1982 and 1991. The authors suggested that organisations should use "a combination of acquiescence, compromise and defiance strategies within their environmental disclosures to respond to the concerns of relevant publics; further, the strategy adopted is influenced by the relative power of these publics" (p.279).

A number of important studies have appeared using Australian data. Deegan and Gordon (1996) analysed the environmental disclosure practices of Australian corporate entities in three ways. rost and Wilmshurst (1996) reported the results of a survey of Australian companies, which showed relatively little support for the involvement of accountants in environmental reporting. Deegan and Rankin (1996) analysed environmental disclosures made by firms successfully prosecuted by the Australian Environmental Protection Authority (EPA), and d that organisations were reluctant to provide negative environmental information in annual reports, probably because of risks to legitimacy. Brown and Deegan (1998) examined the public disclosure of environmental performance information in terms of media agency setting theory and legitimacy theory. The study confirmed the usefulness of legitimacy theory as a predictor of environmental disclosures in annual reports under some circumstances.

Deegan and Rankin (1999) and Deegan et al. (2000) established that in certain cases the motivation for the extension of social and environmental accounting disclosures in the annual reports of corporations is frequently a narrow interpretation of legitimacy theory. The importance of these studies lies in the findings that corporate disclosures may be no more intended to satisfy wider stakeholder groups now than they were in previous periods. The acceptance of the need to publish information about environmental impacts in annual reports by major corporations appears to be directed towards a limited number of publics which are perceived to be influential (sometimes called the confirming publics) and usually prompted by specific events or issues. This is a long way from the ideal of universally available information, the disclosure of which is intended for all parties and motivated by the

acceptance of the social contract of business with society, or the need to conform to regulations and strategies favouring the wider stakeholder groups.

STRUCTURED MODELS TO ORGANISE DISCLOSURES

The empirical studies of Deegan and Rankin (1999) and Deegan al. (2000) point to a narrow view of legitimacy. If it is assumed that the situation described in some of the literature is widespread, what alternative strategies are there, which could lead to a wider view of stakeholder needs and organisational legitimacy? What structural mechanisms have been proposed to enhance the manner in which disclosures are organised and audited/verified? The first part of this section (3.10) examines a number of conceptual frameworks and organised models; the EMAS (1995), ISO 14000 (1996), SA8000, the Copenhagen Charter (CC, 1999), ISEA (1999), and the GRI (2000) guidelines. The second part (3.20) considers arguments about the development of verification methods and environmental and social audits.

Models differ in their origin and structure, for example, the SA8000 (1998) and the AA1000 (1999) standards were prepared by well-known and respected organisations, but there appears to have been little involvement by accounting firms, professional accounting bodies, or government agencies. However, the Copenhagen Charter (CC, 1999) has the support of three of the largest public accounting firms, but not of any government agency or professional accounting body; the Global Reporting Initiative (GRI, 2000) has some input from two professional accounting bodies but not from government or public accounting firms, and the EMAS and ISO 14000 structures have a greater degree of government support but little involvement by accounting as a discipline. It is unlikely that any one approach whether from a government organisation, an NGO or an academic will be complete and generally acceptable at this point. However, the need for standardisation may lead to a satisficing approach whereby the most acceptable model should be given legislative support for a trial period, while attempts are made to develop a model closer to the ideal.

CONCEPTUAL FRAMEWORKS AND STRUCTURED MODELS

This section introduces, in order of publication date, six organised structures (models) proposed by various organisations as a means of influencing management systems and/or disclosures in annual reports. Each model is described and an evaluation is given in section 4.0, together with an attempt to synthesise a model from the reviews.

ECO-MANAGEMENT AND AUDIT SCHEME (1995)

Although the EMAS structure has been in place for some time there has been very little comment or discussion in the accounting literature, probably because there is no direct provision for disclosure of environmental information. However, there is considerable relevant information to consider in a paper dealing with comparative structured approaches to environmental management systems and

disclosure. Although contributions by Hilary (1995), Gray et al. (1996) and Schaltegger et al. (1996) are acknowledged, the source of information upon which this section is based is directly from the EMAS framework itself.

The basic principles underlying the EMAS scheme were set down in Council Regulation 1836/93 –EMAS of the European Commission. There are 21 Articles and 5 Annexes. Of the 21 Articles, the most important for this discussion are numbers 1-9 and 18. These cover objectives, definitions including auditors and verifiers, participation, auditing and validation, the environmental statement, accreditation and supervision of accredited environmental verifiers, the list of accredited environmental verifiers, registration of sites, publication of the list of registered sites, and competent bodies.

The objectives article makes it clear that EMAS is for voluntary participation by organisations performing industrial activities, and aimed at the evaluation and improvement of environmental performance. Continual improvement is to be achieved through the implementation of policies, programmes and management systems by a systematic, objective and periodic evaluation of performance. There is also an obligation to inform the public of the results of the evaluation.

The article dealing with participation states that the scheme is open to companies operating a site where industrial activity takes place. The conditions under which a site may be registered include the presence of an environmental policy, a site review, an environmental audit, objectives for continuous improvement, a statement from each site, verification covering policy, programmes, the management system, the review and audit procedure, and the statement provided. The validated environmental statement is then forwarded to the competent body in the Member State, and also disseminated to the public after the registration of the site has been completed.

The fourth article deals with auditing and validation. The internal audit may be conducted by either insiders or outsiders. The frequency and scope of audits is covered by Annexes II and III (discussed in section 3.21). The accredited environmental verifier must be independent of the auditor and check policies, management system and programme compliance review, and audit whether they meet requirements, and determine whether data and information in the environmental statement covers all significant issues at the site. There is a confidentiality statement related to both auditors and verifiers.

Article five deals with the environmental statement, which is prepared from the initial review and after the completion of each audit or audit cycle thereafter. It is intended for public consumption and should be a concise and comprehensible description of activities at the site; an assessment of significant environmental issues of relevance including emissions, waste generation, consumption of raw materials, energy and water, noise and other significant aspects; a presentation of the company's environmental policy,

programme and management system at the site, the deadline for the next statement, and the name of the accredited environmental verifier. Significant changes since the previous statement should be highlighted. A simplified statement should be produced for the intervening years and these will be validated at the end of the cycle. The annual preparation of environmental statements may be dispensed with where the enterprise has small or medium sized sites or few changes have occurred.

Article six covers the accreditation and supervision of accredited environmental verifiers. The individual clauses recognise the need to set up new bodies, or else use existing accreditation institutions for this role. Article seven requires that a list of accredited verifiers be established and maintained by Member States; the list being communicated to the European Commission every six months. Article eight covers the registration of sites. The competent body registers sites and assigns registration numbers once a validated environmental statement has been received, together with the necessary fees. Sites can be de-registered when breaches of regulatory requirements are confirmed, or where validated environmental statements are not provided. Article nine requires that a list of registered sites shall be published each year in the Official Journal of the European Communities

Article eighteen refers to competent bodies. Member States must designate the competent body responsible for carrying out tasks. This body must be independent and neutral, applying provisions in a consistent manner. Procedures are required for considering observations from interested parties concerning registered sites, or deletion or suspension of sites from registration.

Annex One details requirements concerning environmental policies, programmes and management systems including; environmental policies, objectives and programmes; environmental management systems; and good management practices. Annex IV covers statements of participation, detailing the four levels of participation, and Annex V details the information to be provided to the competent bodies at the time of application for registration or submission of subsequent validated environmental statements.

It is clear from the description of EMAS and its operation that it is a quasi-legislative, organised review of managerial environmental performance. Its strengths are the quasi-legislative nature of the structure, the detail provided, the expectation of continued improvement, and the extent of both audit and verification and reporting available to the public. It also has a number of weaknesses in that the process is voluntary, no specific discharge or performance standards are laid down and no standardised report is issued. The process is bureaucratic and governmental involvement may be a disadvantage, since EMAS is a European Community initiative, which may not make it acceptable in the UK, North America, Japan, and many other parts of the world.

INTERNATIONAL ORGANIZATION FOR STANDARDIZATION ISO 14000 (1997)

Elements common to EMS models include requirements for an environmental policy, specified organisational responsibility and personnel, programme implementation, control procedures, emergency preparedness, verification and review, documentation and communications. It is these last three characteristics that arguably bring EMS models under the purview of professional accounting bodies. Following the Rio Summit on the Environment in 1992 the International Organization for Standardization (ISO) formed a Technical Committee (TC207) to develop an international environmental standard. The more than 100 countries that participate in ISO must agree by a two-thirds vote to the proposed draft before it can be published as an accepted standard. The result of the committee efforts is the ISO 14000 series, which is a standard for an environmental management system. With the implementation of this standard there is a shift from compliance and end of pipe command and control approaches, to one of prevention and continual improvement with the focus on the company. ISO 14001 is a specification standard and provides requirements against which an organisation can be measured. The EMS can then be implemented for internal control only, or the organisation can choose to pursue registration. The specified elements are generic enough to allow various types of organisations to use the ISO 14001 standard as a model and seek registration. The growing number of organisations globally that are registered to the ISO 14001 standard include not only industrial entities, but also retailers, hospitals, universities and government entities.

The International Organization for Standardization (ISO) 14001 gives the following definition of an environmental management system;

> that part of the overall management system which includes organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy (ISO 14001, 1996).

It should be noted that ISO 14001 specifies a particular type of management system and is not a scheme for product certification, or for evaluating company environmental performance. The standard was developed following the ISO 9000 quality management standard that has been widely adopted worldwide. It should be noted also that the BS 7750 standard, which was modeled on the ISO 9000 series for quality management, preceded this standard. ISO 9000 was first published in 1992 and revised in 1994. The quality management standard has been widely adopted worldwide. It was adopted as a standard in the UK. Subsequently, the BS 7750 was used as a reference in the development of the ISO 14001, which was published in 1996 and in March of 1997 ISO 14001 was adopted as the UK's national EMS standard (Fredericks, 1997).

Organisations may voluntarily register to the ISO 14001 standard that has a number of components.

Section 1, Scope states:

> This international Standard specifies requirements for an environmental management system, to enable an organization to formulate a policy and objectives taking into account legislative requirements and information about significant environmental impacts. It applies to those environmental aspects, which the organization can control and over which it can be expected to have an influence. It does not itself state specific environmental performance criteria. (ISO 14001, 1996, p.1)

Section 2 will contain normative references but there are none at present. Section 3 contains definitions of: continual improvement, environment, environmental aspect, environmental impact, environmental management system, environmental management system audit, environmental objective, environmental performance environmental policy, environmental target, interested party, organisation, and prevention of pollution. Environment, 3.2, is defined as, "surroundings in which an organization operates, including air, water, land, natural resources, flora, fauna, humans, and their interrelation." A note continues, "Surroundings in this context extend from within an organization to the global system (p.1)." Following this broad definition of environment is the definition of environmental aspect as an, "element of an organization's activities, products or services that can interact with the environment (3.3, p.1)". The organization is responsible to identify all of its environmental aspects and take them into consideration in setting objectives and targets.

Section 4 details the environmental management system requirements. The standard specifies that the organization is to establish and maintain an environmental management system. Environmental policy is described in more detail in 4.2 which states that top management shall set policy that is:

> Appropriate to the nature and scale of the organization
> Includes a commitment to continual improvement
> Includes a commitment to comply with legislation, regulations and, "other requirements to which the organization subscribes"
> Provides the framework for setting and reviewing objectives and targets
> Is documented, implemented and maintained and communicated to all employees
> And is available to the public.

The last requirement is broadly interpreted to mean that anyone asking to see the environmental policy of the organization must be given that information.

Section 4 on Planning again notes the organisations responsibility to establish and maintain procedures to identify: environmental aspects, legal and other requirements, documentation of objectives and targets, and to establish and maintain programmes for achieving objectives and targets (4.3.4). The

section goes on to specify implementation through structure and responsibility, training and awareness and competence. Further, 4.4.3 requires procedures for communication between levels in the organization and receiving and documenting communication from external interested parties. Sections 4.4.4 and 4.4.5 further specify documentation and document control.

Section 4.4.6 on operational control requires operations with significant environmental aspects to be identified, documented procedures to be established and operating criteria to be stipulated. Further, section 4.4.6 (c) extends a requirement to identify… "significant environmental aspects of goods and services used by the organization and communicating relevant procedures and requirements to suppliers and contractors."

The following section, 4.4.7 details requirements for emergency preparedness and response.
Section 4.5 Checking and Corrective Action, includes specifics on monitoring and measurement, nonconformance and corrective and preventive action, required records and EMS audit. The audit specifically shall determine whether the EMS system conforms to the organisation's plan and has been implemented and maintained. A further requirement is that information on audit results is provided to management. Following the checking and corrective action is section 4.6 Management Review requiring management to review the EMS, document the review, and address changes needed for continual improvement.

This is a comprehensive EMS model and allows for the participation of any organisation, and begins at any level. This may also be considered a major drawback to the ISO 14001 standard. An additional criticism of the ISO scheme is that each organisation sets its own targets and objectives. Thus, an organisation with less than desirable environmental performance can in fact be ISO registered. This same fact may also be a strength in that any organisation can began an environmental programme. Rather than meeting an externally designated minimum requirement, each organisation can start where they are, identify their environmental aspects and set their programme for continual improvement. Once the organisation is registered follow up environmental audits are required.

Auditing principles, guidelines and procedures are published as ISO 14010 and 14011. Specific guidelines on environmental auditor qualification criteria are found in ISO 14012. These will be discussed in a later section on verification.

COUNCIL ON ECONOMIC PRIORITIES ACCREDITATION AGENCY SOCIAL ACCOUNTABILITY STANDARD (SA8000, 1998) [recently renamed Social Accountability International (SAI)]

The social accountability standard published in 1998 differs because the focus is on social rather than environmental issues. It is concerned exclusively with labour related matters. It is divided into purpose and

scope, normative elements and their interpretation, definitions, and social accountability requirements. The latter relate to many categories including child labour, forced labour, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, compensation, management systems, management review, company representatives, planning and implementation, control of suppliers, addressing concerns and taking corrective action, outside communication, access for verification and records.

The standard is part of a structure, which encourages organisations to adopt high standards in order to gain membership and certification. Organisations are encouraged to apply the standards to their suppliers as well as to themselves. However, the standards are not aimed at adding information to that reported in the annual report or any other publication, excepting to state that the organisation has been certified as complying with SA8000. In terms of other structures reviewed in this paper, although dealing with very important subject matter, SA8000 appears to be less comprehensive than either CC or AA1000. This may be because it preceded them by at least 12 months at a time when changes appear to be rapid. Also, there is no attempt to address wider social or environmental issues.

THE COPENHAGEN CHARTER (1999)

A contribution to the area of social accounting and social auditing was provided by the Copenhagen Charter (1999) (hereafter CC), a publication sponsored by the Danish offices of Ernst and Young, KPMG, PriceWaterhouse Coopers and the House of Mandag Morgan. It was launched at the Third International Conference on Social and Ethical Accounting, Auditing and Reporting, and is concerned with developing sensitivity to the values of stakeholders. The charter is a "…management guide to stakeholder dialogue and reporting. It aims to set out, briefly and concisely, the most important motives and principles involved" (p.1).

Part One discusses 'The Effects of Stakeholder Reporting', which is aimed at providing balanced and sustainable value creation for all stakeholders. The CC goes on to discuss internal value creation (dialogue-based, values-driven management), responses to new management challenges, and a strategic information system and external value creation and reputation management, an insurance policy protecting the company's reputation by means of an 'early warning system'. Part Two of the CC is devoted to the 'Principles of Stakeholder reporting'. These are listed in three groups; laying the groundwork, embedding and communicating. Laying the groundwork includes the involvement of top management who should demonstrate commitment, determining objectives and resource allocation, setting up task groups, and preparing management and employees. The embedding process includes revising vision strategies and values, identifying key stakeholders and focus areas, identifying values and critical success factors, dialogue with stakeholders, determining key performance indicators, adaptation of management information systems, and monitoring effectiveness for continuous improvement. Communicating is

subdivided into preparing reports, having objectives, budgets and action plans for improvements, verifying reports, publishing reports, and consulting stakeholders about performance and values. Part Three is entitled 'Credibility in Stakeholder Reporting' and involves accounting principles (not necessarily GAAP), information relevance (including the provision of negative information as appropriate) and verification.

INSTITUTE OF SOCIAL AND ETHICAL ACCOUNTABILITY STANDARD SA1000 (1999)

The first standard for building corporate accountability and trust was issued in November 1999 by the Institute of social and Ethical Accountability (ISEA). The ISEA states that the AA 1000 standard "… provides both a framework that organisations can use to understand and improve their ethical performance and a means to judge the validity of ethical claims made." The AA 1000 standard is described as 'best practice' as agreed by worldwide experts and would give both internal and external stakeholders greater reassurance that the disclosures were not merely public relations 'puff'.

The AA1000 standard is described as:

> …an Accountability standard, focused on securing the quality of social and ethical accounting, auditing and reporting.

AA1000 comprises principles (the characteristics of a quality process) and a set of process standards. The process standards cover the following stages; planning, accounting, auditing and reporting, embedding, stakeholder engagement (AA1000, 1999, p.1).

The executive summary states that AA1000 focuses on improving overall performance through measurement, quality management, recruitment and retention of employees, external stakeholder engagement, partnership, risk management, investors, governance, government and regulatory relations and training (AA1000, 1999, pp.3-4). The users of AA1000 are expected to include adopting organisations, stakeholders, service providers, and standard developers.

Auditing and quality assurance are required as a part of the system. The guidelines provide principles to underpin the conduct of the audit and provide a framework for the social and ethical audit process, although this is explicitly excluded from the AA1000 process standard (p.13). The audit guidelines are discussed in section 3.23 below.

GLOBAL REPORTING INITIATIVE SUSTAINABILITY REPORTING GUIDELINES (2000).

The Global Reporting Initiative Sustainability Reporting Guidelines (hereafter GRI, 2000) is a major structured programme aimed at standardised disclosures of economic, environmental and social information in annual reports and the media. The GRI was established in late 1997 as an offshoot of the Coalition for Environmentally Responsible Economies (CERES), with the mission to design globally

applicable guidelines for preparing sustainability reports, in contrast to environmental reports. A draft of the guidelines was released in March 1999, and the final sustainability reporting guidelines in June 2000. There are plans to establish the GRI as an independent standard setting institution from 2002. The international steering committee, which oversees the activities of the GRI, comprises NGOs, corporations, professional accounting bodies and the United Nations. There are no public accounting firms or national governments involved, and the two professional accounting bodies involved have supported environmental accounting developments for many years.

GRI (2000) consists of four parts. Part A sets out what the GRI is attempting to achieve, the background to the development of the GRI, and the relationship of the GRI to other initiatives. There is also reference to the verification of GRI reports. Part A outlines the principles and practices underlying the GRI including qualitative characteristics, classification of performance reporting elements, ratio indicators and the disclosure of reporting practices. Part C details the content of the GRI report including a CEO statement, profile of the reporting organisations, an executive summary and key indicators, vision and strategy, policies organisation and management systems and performance. Part D consists of four annexes, including one that provides guidance on verification.

Examples of content which establish Part B as a conceptual framework include under `underlying principles' a discussion of the reporting entity principles, the reporting scope principle, the reporting period principle, the going concern principle, the conservation principle, and the materiality principle. Under `Qualitative Characteristics for GRI Reporting' there is a discussion which would be familiar to all accountants since it includes relevance, reliability, clarity, comparability, timeliness, and verifiability. Under `Classification of Performance Reporting Elements' there is a hierarchy, which informs the development of performance information elements in Part C, which outlines `Report Content'. The three parts of the hierarchy are termed `categories' (groupings of economic, environmental and social issues of concern to stakeholders); `aspects' (which refers to general types of information related to a specific category); and `indicators' (which are the specific measurements of an individual aspect that can be used to track and demonstrate performance). The GRI notes that this approach is compatible with that of ISO 14000 and the World Business Council for Sustainable Development (WBCSD). Part B of GRI 2000 also refers to ratio indicators and the disclosure of accounting policies. This appears to be an elaborate conceptual framework.

Part C deals with report content. The GRI structure begins with the CEO statement, the profile of the reporting organisation, an executive summary and key indicators, vision, strategy and policies. Organisation and management systems performance is then considered. With regard to report content, the GRI states:

This section covers the reporting organisation's economic, environmental, and social performance. It does so through the use of quantitative and qualitative indicators as well as supplementary information. To aid interpretation, reporters are asked to report relevant objectives and programme information along with raw data. They are also asked to provide context, management explanations, and commentary on trends and unusual events.

VERIFICATION, ENVIRONMENTAL AUDIT AND SOCIAL AUDIT

Audit procedures and reports have been a part of external reporting for centuries, and so it is not surprising that many organisers and proposers of new structures have sought to import into accounting for environmental and social impacts the concept of an independent audit. This has not been straightforward, especially since the professional accounting bodies (with a few exceptions) have shown little interest in expanding the movement of their members into non-financial and non-traditional areas. Furthermore, accounting firms themselves appeared to be ambivalent towards environmental auditing, however, as Power (1997) has reported in some cases this ambivalence appears to have been resolved in favour of involvement.

The picture is further complicated by the development of the role of a verifier through the impact of EMAS and ISO 14000, where both an auditor and an external verifier have separate roles to play. The social audit field is complicated by the history of this activity as a radical anti-business development of the 1970s, which appears to have metamorphosed into the less abrasive activity advocated in the SA8000, AA1000 and CC structures discussed in this paper. The three activities, verification, environmental audit, and social audit, as represented within the six structures reviewed in this paper are discussed in the following sub-sections.

VERIFICATION

Annex II of the EMAS structure addressed the requirements concerning environmental auditing under headings A-H. The various headings cover written objectives, specified scope of the subject area, and activities to be audited; environmental standards and the audit period; organisation and resources, including appropriately qualified independent auditors; planning and preparing for a site audit; and the reporting of the audit findings and conclusions. A written audit report is to be prepared at the end of the audit, and formally communicated to top management. The report must document the scope of the audit, provide management with information on the state of compliance with the company's environmental policy and environmental progress at the site, to provide management with information on the effectiveness and reliability of the arrangements for monitoring environmental impacts at the site, and to demonstrate the need for corrective action, where appropriate. There should be an audit follow-up leading to the preparation and implementation of a plan of appropriate corrective action, and there must be mechanisms to ensure that audit results are followed up. Audit frequency is important and intervals must not be longer

than three years based on the particular character of the site, its processes and emissions and previous environmental problems.

The EMAS definitions article contains a list of definitions including those of auditor and accredited environmental verifier. Unlike many structures for disclosure and reporting, both auditors and verifiers are employed with separate functions as can be seen from the definitions employed:

> *l) auditor* shall mean an individual or a team, belonging to company personnel or external to the company, acting on behalf of the company top management, possessing, individually or collectively, the competencies referred to in Annex II paragraph C and being sufficiently independent of the activities they audit to make an objective judgement;
>
> *m) accredited environmental verifier* shall mean any person or organisation independent of the company being verified, who has obtained accreditation in line with the conditions and procedures referred to in Article 6 (EMAS, 1993, p.3; original emphasis).

Part B stated the functions of the environmental verifier, including the examination of environmental policies, programmes, management systems, review and audit procedures and environmental statements, and the validation of the statements.

Langford (1995) noted that under EMAS regulations the accreditation of verifiers in the UK is the responsibility of the National Accreditation Council for Certification Bodies (NACCB). He stated that:

> For EMAS reporting, the NACCB has decided that the qualifications required are the same as for those certifying environmental management systems. EMAS verification is treated in the same way as certification of environmental management systems under BS 7750, but with the additional requirement for validation of an environmental statement. The NACCB therefore believes that the verifier's role will lead to the development of a new profession – though some in the accountancy profession believe that EMAS validation is in many ways similar to forming an opinion on other company statements. Where technical expertise is required such as that of chemists or engineers, auditors already use several approaches, such as reliance on other experts' work or the use of a multidisciplinary team (Langford, 1995, p.129).

This is clearly the basis for ongoing manoeuvring for position between external auditors, internal auditors, and those employed in the technical areas as environmental managers and auditors.

Annex III covered requirements concerning the accreditation of environmental verifiers and the function of the verifier. This annex is divided into two parts. Part A, which deals with the requirements for the accreditation of environmental verifiers, and Part B, which details the function of the verifiers. Part A itself

is comprised of five parts, namely, the accreditation criteria for environmental verifiers under the sub-headings personnel, independence and objectivity, procedures and organisation; secondly, the accreditation of individuals; thirdly, applications for accreditation; fourthly, the accreditation process; and finally, supervision of accredited environmental verifiers.

A more recent Commission decision published in the Official Journal (OJ L104 33 April 1997) provided for the avoidance of duplication by verifiers where a site has already been validated under ISO 14001. The certificate must have been issued under European accreditation of certification (EAC) guidelines (EAC Guide 5 June 1996) or guidelines issued by the German federal minister of environment, nature conservation and nuclear safety and for economics, under Article 21 of the German EMAS Act or based on the relevant Austrian legislation. The area must be compatible with the ISO 14001 and all provisions must have been covered, the verifier must check the site to see that provision has been made for regulatory compliance, the range of environmental effects must be compatible, audit frequency must be compatible, and the environmental verifier must check whether the data supplied is reliable and covers the significant environmental issues relevant to the site. Only at this point can the certification under ISO 14001 be accepted for use under EMAS.

The ISO 14000 series has three standards providing guidelines for environmental auditing: ISO 14010, Guidelines for Environmental Auditing General Principles; ISO 14011, Audit Procedures- Auditing of Environmental Management Systems; ISO 14012, Qualification Criteria for Environmental Auditors. These guidelines for EMS auditing are verification standards. The verifier in this instance is to determine whether the organisation is in compliance or conformance to the ISO standards; not to evaluate the environmental performance of the organisation.

ISO 14001 requires that the EMS be implemented as part of the overall management system. The function of the EMS audit then is to assess whether the EMS as specified by the organisation has been implemented. Under ISO 14011 definitions, Environmental Management System audit is defined as:

> Systematic and documented verification process of objectively obtaining and evaluating evidence to determine whether an organization's environmental management system conforms to the environmental management system audit criteria, and to communicate the results of this process to the client (ISO 14011, 1997, p.96).

A significant part of the requirement is communication with the client. In a subsequent requirement a management review is mandated and a response required with regard to any nonconforming items.

The EMS audit is itself not a compliance audit. However, one of the requirements for the EMS is that the system is designed to provide compliance with all legal and environmental requirements. The organisations are required to demonstrate that they are aware of requirements and have access to the specific requirements, the organizations further state that they have systems in place to implement regulatory compliance. Thus, the EMS audit may verify that internal or external auditors have performed an adequate compliance audit and that regulatory requirements are and integrated part of the EMS.

Under ISO 14010 the definition of Environmental Audit is given as:

> Systematic, documented verification process of objectively obtaining and evaluating evidence to determine whether specified environmental activities, events, condition, management system, or information about these matters conform with audit criteria and communicating the results of this process to the client (ISO, 1997. P.96).

In this case the audit criteria against which the organisation is tested may include environmental legislation and regulations, or other voluntary standards to which the organisation subscribes (cf. Responsible Care for the chemical industry). Environmental audits can include four categories: systems audits, compliance audits, site audits and process audits (Fredericks, 1997). Further, Fredericks noted:

> The most important concept underlying the ISO 14010 and 14011 environmental and EMS audit guidelines is the verification process that audits provide. The environmental auditor's primary role is to determine compliance or conformance – not performance (Fredericks, 1997, p.85).

The environmental audit itself is defined using the requirements for gathering, documenting, and evaluating evidence using traditional audit terminology and requirements, such as objectivity, independence and competence. However, the subject matter is defined by ISO 14010 as," specified environmental activity, event, condition, management system and /or information about these matters." ISO 14010 goes on to define environmental auditor as a, "person qualified to perform environmental audits." The qualification criteria are specified in 14012. The objectives and scope are set at the beginning of the audit process in cooperation with the client and auditee. The audit team may consist of internal or external members if the criterion of independence is met. Specific guidelines for the EMS audit are found in ISO 14011. Again, these follow a traditional audit plan with scope and criteria specified. Evidence is then gathered, documented and findings presented.

Accreditation standards are also addressed. Environmental auditors must meet the standards advanced by one of the recognised accreditation bodies. Some examples of these are: American

National Standard Institute (ANSI) in the US, Standards Council of Canada (SCC) in Canada, UK Accreditation Service (UKAS), and JAS-ANZ for Australia and New Zealand. The accrediting bodies set the specific requirements for auditors. The requirements include qualifications in both auditing and environmental technical areas. Following a successful environmental audit an organisation may apply for registration to the ISO 14001 standard. This is done by a group of registrars, and these parties must themselves be accredited by national accreditation bodies to perform the registration and subsequently required monitoring. It is a peculiarity of the ISO 14001 standard that organisations may self declare, thus, the verification process is not performed by an external verifier. There is also no registrar to formalise the registration. Most organisations that attempt the ISO 14001 EMS implementation seek the external verification and registration. This may relate to the desire to legitimise the environmental activities of the organisation and enhance public perception of environmental performance.

The GRI sustainability reporting guidelines covered economic, environmental and social performance. The term verification was used, perhaps because it has particular currency in referring to environmental reporting, and independent verification of sustainability reports was stated to be highly desirable:

> Accordingly, the GRI supports in principle the independent verification of GRI reports, while recognising that organisations need time to assess their needs, readiness, and options for verification.

Other ways to enhance the quality, usefulness, and credibility of GRI reports include:

> Internal auditing of systems and procedures for measuring, recording, and reporting performance data;
>
> Independent evaluations and commentaries by external experts regarding an organisation's economic, environmental and social performance and/or management processes;
>
> A clear statement by a board of directors or chief executive officer that a report has been prepared in accordance with the GRI *Guidelines* (GRI, 2000, p.10).

Annex 3 provided greater detail on the subject, including the planning of the independent verification, methods, standards and stakeholders, and the form and content of the verifiers' statements or reports. The conclusion summed up the position of the GRI:

> The verification of sustainability reports, like sustainability reporting itself, is at an early stage. Verification is one of several ways to enhance the credibility sought by both reporting organisations and report users. The GRI expects to learn alongside reporters and verifiers what approaches work most effectively and efficiently. The GRI will inform, and shall be

informed by, evolving verification practices. Its future role in the evolution of verification will be shaped from this dynamic, interactive process (GRI, 2000, p.53).

ENVIRONMENTAL AUDIT

In addition to the management, or EMS models, and the reporting models, separate audits have been proposed. Maltby (1995) referred to environmental audit as a growth area, which had received little attention in the auditing literature, noting that there was no mandatory requirement for companies to have an environmental audit, neither are there any generally accepted standards related to this work. Maltby (1995) discussed both direct and indirect pressures, which may be exerted on companies, to adopt environmental audit. Direct pressure comes from the EC eco-audit also known as EMAS and the indirect pressure comes from the publicity relating to public environmental disclosure. The voluntary EMAS will require registered companies to have an environmental policy and an environmental management system with quantifiable targets for continuous improvement of performance. Audit must be carried out at a minimum of every three years, leading to an audit report submitted to management and a published environmental statement, both subject to independent external verification. By comparison, BS 7750 required that the operation of the environmental management system should be internally audited and evaluated on a regular basis. In addition to direct and indirect pressures, Maltby (1995) noted that there was legal pressure from recent UK environmental legislation.

In a perceptive article, Power (1997) noted how accountants were beginning to respond to the shift in regulatory style following the development of EMAS. The market for environmental audit and verification of voluntary statements has prompted a move by some accountants to become involved in a field that they had hitherto neglected. In doing so they have to establish a claim to the appropriate level of expertise in order to overcome competing claims by experts in other fields, such as the applied sciences. They attempt to do this on the basis of an overall claim to audit systems of management control. This process is ongoing with external auditors competing with internal auditors, who are in many cases competing with environmental managers, to determine the overall control of the environmental audit process. The intensity of the debate reported by Power (1997) suggests a belief by some accounting firms that a lot of business will come from the audit of these systems.

Tucker and Kasper (1998) provided arguments in favour of management moving from a technical view of environmental audit, not employing the internal audit function, to an integrated approach, concluding:

> One implication of ISO 14000 is that auditors will be auditing a system rather than focussing on technical regulatory compliance… as in the past. Consequently, the audit team will tend to include fewer scientists and engineers and more internal auditors who are trained to identify risks, evaluate management systems and internal controls, and value the company's environmental costs and obligations (Tucker and Kasper, 1998, p.353).

We note, however, that there is a requirement for lead auditors to have adequate environmental experience as well as auditing experience.

Black (1998) noted that since about 1970, wherever there was any environmental auditing in the US it was driven by compliance with legislation relating to air and water standards. The attention of environmental auditors should now shift to the audit of fully integrated environmental management systems, which are designed to "sustain and promote environmental advances while utilizing far fewer resources than a compliance approach requires" (Black, 1998, p.24). This requires five changes to the environmental auditing scene; broader audits going well beyond compliance; integrated environmental audits within the overall organisation; a widespread involvement with a need to take a wider perspective such as life cycle assessment; an emphasis on certification leading to the creation of a new qualification; and a merging of the roles of internal auditors and environmental auditors.

SOCIAL AUDIT

The early history of the Social Audit movement is well covered in Gray et al. (1987) and Gray et al. (1996), and to a lesser extent in Mathews (1993). After a period of quiescence the area of social audit has now been revived, but in a somewhat different and more benign form from the perspective of the target organisations. A recent report on behalf of the New Economics Foundation (NEF), the Association of Chartered Certified Accountants (ACCA) and the Institute of Social and Ethical Accountability (ISIA) by Gonella et al. was published in 1998 by the ACCA. The report provides a review of (other) contemporary practice, which explored the conceptual and practical roots of current practice. The drivers of this practice including managerialist/stakeholder management, value shift and base, and public interest and accountability. A number of common themes were identified, including eight underlying principles and a variety of approaches to social audit. The report concludes with an agenda for action. The overall result was an updated social audit, which did not appear to be driven by an overt political agenda of conflict between organisation and public, but is more of a managerial tool for keeping the organisation onside with various constituencies. Some critics might suggest that Social Audit has been captured by the managerial group and `turned' to support the status quo in a manner that would have been unthinkable to those advocating social audit in the 1970s.

The SA8000 social accountability standard did not refer to auditor or any similar person or function in the list of definitions. Clause 9.12 stated that where required by contract the company should provide reasonable access to information. Clause 9.13 required that records be kept which will enable conformity to be demonstrated. In all other respects the standard itself is silent about the audit function. However, in the supplementary website information issued by CEPAA under its new name Social Accountability International (SAI) there is reference to the use of a certification auditor at several

stages, including full certification for a period of three years (including surveillance every six months) and renewal of the certification every three years. A list of five accredited organisations, which must adhere to SAI Accreditation Criteria, is provided.

The AA1000 process standard has two pages dealing with auditing and quality assurance. The approach taken is stated as:

> A number of terms have been used to describe these processes, including verification, certification, and assurance and auditing. In the AA1000 framework 'auditing' refers to all assessment processes where the social and ethical accounting, auditing and reporting process and social and ethical report(s) are examined by an independent body in order to provide assurance to the organisation and stakeholders as to the quality of the process and report(s).

The AA1000 foundation covers both internal audit (AA1000 process standard 12) and external audit (AA1000 process standard 10) processes. Both types of process are key to an organisation discharging its accountability (AA1000, 1999, p.13, original emphasis).

A set of audit guidelines was provided to support the practice of social and ethical audit. These included principles for the conduct of the social and ethical auditor and a framework, which is not of the AA1000 process standard, but guidance to support the conduct of the audit. Issues to be addressed, with other organisations as appropriate include; scope of the audit process; the role of single and multiple auditors; content, format and language of the audit report and audit opinion, including the concept of 'going concern' and qualified audit opinions; levels of assurance conveyed by the audit reports; links between AA1000 and IFAC ISAs; and the quality control of auditors' work (AA1000, 1999, p.14).

The CC also referred to the audit process, noting that the principles should be applied whether internal or external audits are being undertaken, and include integrity, objectivity and independence, professional competence, professional behaviour including rigour, judgement, significance, and clear communication, confidentiality and due care to stakeholders.

Under 'verification' the CC (1999, pp.8-9) stated:

> The responsibility for the quality and credibility of stakeholder reporting ultimately rests with management. However, both quality and credibility may be enhanced by obtaining verification of the processes and results from an independent party. The independent verifier should be competent to critically assess the overall process, including management's choice of accounting and reporting methods…. the verifier reaches a conclusion by assessing the relationship between four factors: the subject matter, the criteria used in the report, the process, and the quantity and quality of evidence.

Whilst these are appropriate statements which can and should be supported, they lack form and substance, and leave too many decisions in the hands of those preparing the disclosures. Although the term verification is used the extent of the structure does not compare with the environmental verification required under EMAS. For this, and other, reasons it has been decided to include this item in the social auditing section and not the verification section.

EVALUATION AND SYNTHESIS

This paper has considered six models or organised structures, proposed by organisations rather than individuals, and designed to foster either; improved environmental management (EMAS, ISO 14000) measured against a series of published requirements, disclosures of economic, environmental or social performance data (GRI 2000) measured against standards, or social, ethical and stakeholder reporting (SA8000, AA1000, CC). All refer to audit or verification in various ways.

The EMAS and ISO 14000 models are more established and better known, providing for multistage audit and verification. However, they are not concerned with reporting levels of performance attainment, only with evaluations of the existence of environmental management systems, policies and procedures, designed to address environmental matters and provide continual improvement. Therefore, in the opinion of the authors, by themselves EMAS and ISO 14000 can only be partial answers to questions about the future direction of environmental accounting and reporting. However, these models have a place in an improved system of reporting to stakeholders. The ISO 14000 series would probably be more acceptable for use in Anglo-American accounting countries because EMAS is seen as tied to the European Community. To be of benefit in the development of environmental accounting, it would be necessary for the concept of an Environmental management System (EMS) and everything that went with it to become a requirement for a 'clean' audit report. It might be envisaged that a professional accounting body would have a requirement that the audit report should state that the auditee has demonstrated compliance with the provisions of ISO 14001 including a publicly available report. If this were not so then the audit report would note this situation.

Despite an apparently elaborate design, with GRI 2000 the end result is not a standard in the same sense as the term applies to accounting standards. For example; under `Energy (joules)' generally applicable item 6.1 is `total energy usage'. Under `Materials (tonnes or kilograms)' generally applicable item 6.6 is `Total materials use (other than fuel and water)'. In neither case does this listing or classification assist the preparer to generate standardised comparable data that can be verified. No method for calculation is provided, although in some cases, relevant national legal requirements are cited. There are 96 such line items, which could provide the basis for the most comprehensible reporting system that could be imagined at the present time; but without formal structures the 96 items will not yield usable information. If GRI 2000 is to be developed in the manner of current accounting

standards it will have to start with those items that are generally applicable, most easily defined and technically feasible to structure. Until this is done the GRI is a very detailed conceptual framework, with a list of items (a wish list) of headings to be used in a report.

The GRI 2000 provides more than a philosophical discussion. Part B sets down a conceptual framework which could be used to develop standards applicable to all reporting organisations. Part C identifies the information to be provided, and in many instances is quite specific (energy, materials, water, emissions etc.) and broadly based (economic, environmental, social). However, these requirements are not sufficiently detailed in terms of their determination to be described as standards (in an accounting context). There is certainly the basis for further development into formal standards. The GRI could be developed into a comprehensive disclosure structure of formidable proportions, provided that standards are developed from what are currently mainly wish lists.

The GRI 2000 approach provides a good conceptual framework for the development of performance related disclosures of economic, environmental and social information. A recent paper published by the Public Accounts and Estimates Committee of the Victorian (Australia) Parliament refers to the reaction to GRI 2000. It was argued that guidelines should be voluntary and not compulsory, flexible not prescriptive, allow for further development of the guidelines, and that verification should be voluntary not compulsory. Furthermore, "GRI was considered to be too prescriptive and at too high a level…" (PAEC, 2000, pp.72-73). This is an interesting if predictable response, although as noted in section 3.16 above, GRI does not provide standards, just a list of topics that they believe should be reported. The difficulty with the 'voluntary non-prescriptive approach ' is that we may see a repeat of the 30-50 year gestation period which financial accounting went through before getting legally backed standards based on a conceptual framework. The authors consider that the GRI provides a good starting point from which to proceed to environmental accounting standards for use in the annual reports of corporations and similar organisations.

The domain of audit and verification has been given considerable importance under EMAS/ISO 14000 and GRI. This should be encouraged in order that environmental accounting disclosures get the credibility needed to rank alongside the more traditional financial reporting of performance.

The three models/structures concerned with social/ethical/stakeholder reporting do not really constitute more than philosophical statements at this point, although they are nonetheless valuable in their own ways. They may become more important as attention turns from the environmental to the social, particularly if environmental disclosures become more common and `standardised'. At the present time, however, the opportunity lies in getting a number of parties to address performance measures and disclosures in the environmental area, and perhaps professional bodies, standard setters, and legislators should attend to this area first.

SA8000 does not attempt to provide detailed standards of the type that would aid disclosures. There are definitions and criteria, and a list of requirements to which an organisation can state that it does (or does not) meet.

In assessing accountability the overview of AA1000 states that:

> The accountability assessment guidelines are based on the AA1000 principles and process standards. As such, they do not provide a definitive guide to the format or content of social and ethical reports, and do not define social and ethical performance indicators or targets for organisations. In addition they do not provide a method of calculating an accountability score for a report.

However, the guidelines do assist stakeholders in making a qualitative assessment of the inclusion of information in a report and its meaning. (AA1000, 1999, sections 6.2 and 6.3, original emphasis).

This statement makes clear how far from the development of published standardised reports the structure of AA1000 is. If the GRI could be summarised as mainly a conceptual framework, and the CC as a philosophical statement, what status would be appropriate for the AA 1000? The issue is confused by the use of principles, process standards and guidelines as descriptions in different parts of AA 1000. It is not concerned with reporting as such, but with the underlying activities, especially stakeholder engagement, particularly in the social and ethical accounting field. How do principles differ from philosophical statements (as CC)? Probably very little, although the audit/verification section may be stronger than CC. The CC provides a philosophical statement about the need for stakeholder reporting. In places it may approach the standing of a conceptual framework, but nowhere does it provide standards which could be used as structured/organised bases for disclosures. For example, some of the features of a conceptual framework are definitions and delineations, particularly in respect of the actual items to be measured and disclosed. The standards specify how the measurement and disclosure is to take place.

The absence of the characteristics of conceptual frameworks and standards is exemplified clearly in Part Two 'Principles of Stakeholder Reporting' where, under the sub-heading 'embedding' it is stated that:

> Management must determine key performance indicators (KPIs). KPIs form the substance of the stakeholder report because they reflect the performance of management in living up to stakeholder values and expectations.
>
> The choice of indicators should reflect strategic management priorities, as well as a management commitment to follow up on the results, and report on positive as well as negative developments in the indicators in later reports.

> KPIs should be meaningful, clear, well-defined, and measurable. The indicators must be integrated into management systems and registered on a regular basis (CC, 1999, p.7).

Which appears to leave the design of the reporting in the hands of the preparer; the very state of affairs which standards of disclosure are intended to prevent.

Furthermore, in Part Three entitled "Credibility in Stakeholder Reporting' there is a discussion of 'Accounting principles' where it is stated (p.8) that "… readers must be supplied with information on the accounting principles underlying the results", once again leaving the provision of principles in the hands of the preparers. It appears that the description 'philosophical statement' is more appropriate than 'conceptual framework' to describe the charter, which is a very long way from providing formal statements to organise disclosures in annual reports. AA1000 is closer to the Copenhagen Charter than to any of the other structures so far discussed. The reference to social and ethical reporting and to stakeholder groups clearly differentiates AA1000 and the CC from systems like the GRI, EMAS and ISO 14000. In particular there is a clear requirement for organisations to discuss with stakeholders the nature of the objectives and targets, which the stakeholders want to see achieved by the organisation. There is a need to engage with stakeholders, and not to assume that organisational management knows what is best for them. This does not seem to fit into the picture of standards set up by an authoritative body based on a conceptual framework, and formally audited or verified.

In attempting to synthesise the available structures (which is necessary because no single model covers all the important aspects) it appears that:

1. Either EMAS or ISO 14000 (but most likely ISO 14000) EMS approaches could be adopted under GAAP, with a requirement that a satisfactory outcome of verification be required before the external auditors could sign off on the annual report.

2 The GRI guidelines could be accepted as providing a conceptual framework for the development of reporting standards, and that professional accounting bodies work with GRI to develop performance standards for the most important areas (for example emissions) as a matter of urgency. The performance standards would need to be verified/audited by appropriately qualified parties (probably using multidisciplinary teams).

Those aspects of SA8000, AA1000, and CC which assist in 2. above should be considered as supplementary material (for example the suggestions for achieving stakeholder interaction). Other aspects of social accounting might need to be deferred until the environmental reporting has been put on a stronger standardised and legally backed basis.

CONCLUDING COMMENTS

This paper began with a summary of recent empirical research dealing with the motivation behind social and especially environmental disclosures in corporate annual reports. The main findings appeared to be that much of the disclosure activity could be explained as a response to legitimacy theory rather than stakeholder theory or some notion of a social contract of business with society. Unfortunately, there is also some evidence that the view of corporations is a somewhat limited perspective of legitimacy theory, where they want to respond to major issues and events, which they perceive as disturbing major shareholders, and not necessarily to all stakeholders and all events.

The paper proceeded to consider strategies, which may be proposed to deal with the apparent biasing of legitimacy in favour of the corporation. The options may include following some sort of legislative or quasi-legislative framework in order to develop standardised disclosures, which could be verified or audited. Whilst legally backed standards based upon a comprehensive conceptual framework which mirrors the financial accounting model might be considered an ideal solution (by some) it is unlikely to be achieved in the short term, particularly since the majority of professional accounting bodies appear indifferent to this major new area.

As an initial measure the authors propose that the professional accounting bodies, and/or standard setting authorities consider requiring corporations to implement the ISO 14000 environmental management system including its verification provisions, together with the evolution of the reporting provisions of GRI (2000). Although not the ideal situation, this proposal would save some of the resources which might otherwise be used to develop specific conceptual frameworks and disclosure standards from scratch, and would also avoid some of the difficulties in getting legislation passed. The results should be almost as effective, if the requirements of the accounting profession and standard setters placed EMAS/ISO 14000 within GAAP, and corporations without an adequate environmental management system would not get a clean audit report. The reporting provisions of GRI 2000 should then be developed as a matter of urgency. A combination of these two approaches would provide a workable structure in the short term and enhance the legitimacy of the annual report (and therefore the preparer organisation) in a way which ensures that the control of both EMS and disclosures/reporting is not entirely in the hands of the preparers.

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